Revenue Acts, was first stated definitely in the report of the Senate Finance Committee in connection with the Revenue Bill for 1918:

> "Provision has been made in section 240 for a consolidated return, in the case of affiliated corporations, for purposes both of income and profits taxes. A year's trial of the consolidated return under the existing law demonstrated the advisability of conferring upon the Commissioner explicit authority to require such returns.
>
> "So far as its immediate effect is concerned a consolidation increases the tax in some cases and reduces it in other cases, but its general and permanent effect is to prevent evasions which can not be blocked in any other way. * * * While the committee is convinced that the consolidated return tends to conserve, not to reduce, the revenue, the committee recommends its adoption not primarily because it operates to prevent evasion of taxes or because of its effect upon the revenue, but because the principle of taxing as a business unit what in reality is a business unit is sound and equitable and convenient both to the taxpayer and to the Government." (Senate Report 617, accompanying H. R. 12863, Dec. 6, 1918, 65th Congress, 3rd session, pp. 8–9).

It is only in a rare instance that one member of an affiliated group of companies sustains a net loss that is not in some part caused by its relation to the other companies of the group, and this would ordinarily not be due to any artificial arrangement between them. For instance, a railroad company may be compelled by public demand to operate a branch line, even at a recurring annual loss. The loss should be

offset by the profits from the rest of the system whether the branch line is separately incorporated or not.

The Department concedes that the loss shown for Company C in the illustration given above for the first taxable year is deductible from the net income of the other two companies. There is no proper reason why the parent company of an affiliated group having net income in both years, should not have the benefit in the succeeding taxable year, either directly or indirectly, of carrying forward an unabsorbed statutory net loss of an affiliated company for a prior year, just as much as it is entitled to the benefit of reduction of its income in the prior year by the loss of the affiliated company in that prior year.

Respectfully submitted,

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